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1. NASR COMMENTS ON US POLICY

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[Redacted]

President Nasr of Egypt told Ambassador Hare on 9 January in a two-hour talk that he had read the President's speech on the Middle East 10 times and still found it vague. He said the speech did not take into consideration the immediate problems of the area: Israel, Britain, and Egypt's economic difficulties. Nasr said that while the United States put the blame on the USSR, he was convinced there was no threat of Soviet aggression. He said the "struggle" was psychological and urged the United States to "work on the people" of the Arab world. He reiterated that the main problem in the area was the internal situation in each of the Arab countries in terms of the people and their reactions.

Nasr said that before the Suez crisis he believed the Egyptian Communists were a serious problem but manageable; now he thought they were too strong to move against openly and that they were aiming to attain political domination.

Hare said Nasr looked haggard, seemed distraught, and his presentation was long, diffuse and at times almost incoherent.

Comment Nasr's manner and his statements suggest that recent events are beginning to tell on him. While his asserted concern with the problem of internal Communism may be in order to elicit American help, Egyptian Communists have in fact increased their activities since the hostilities last November.

Various recent reports of dissension in the army and of growing economic stresses also suggest that Nasr is under increasing pressure. [Redacted]

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2. EGYPTIAN ECONOMIC SITUATION BECOMES CRITICAL

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A responsible Egyptian bank official now believes that Egypt is headed for bankruptcy as a result of the effect of the American and British action in freezing Egyptian pound and dollar balances in July and other economic pressures resulting from the Suez crisis.

Cairo's total foreign exchange holdings are now only about 10 percent of the normal working balance of about \$130,000,000. Its present foreign exchange is hardly adequate for even a hand-to-mouth existence and explains why Egyptian finance minister Kaisouni appeared "crushed" when informed of the American government's refusal in late December to release \$50,000,000 which has been blocked since Nasr's action to nationalize the Suez Canal.

The stability of Egypt's agricultural subsistence economy has served to delay the effects of the disruption of economic activities which began last August. However, reserves of foreign exchange, oil, spare parts, and raw materials are now about exhausted. Petroleum reserves, for example, are now estimated to be adequate for only about two and a half weeks. Kerosene--extensively used for cooking by the bulk of lower class Egyptians--has been severely rationed.

While Egypt is receiving some aid--Saudi Arabia is making available \$9,000,000 during the first three months of 1957--the amount appears inadequate to stave off a financial disaster. Soviet aid, [redacted] has been solely on a quid pro quo basis and Moscow so far has not extended any aid which would improve Egypt's critical situation.

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5. CHOU'S ARRIVAL IN WARSAW

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[Redacted]

In his statement to the Poles on his arrival in Warsaw, on 11 January, Chou En-lai emphasized the necessity of bloc solidarity under the leadership of the Soviet Union. Like the long Chinese

declaration of 28 December which made clear Peiping's feeling that Gomulka had gone too far, Chou's remarks provide no encouragement to the present Polish leaders to press further their independent course.

While the Chinese are more sympathetic than the Kremlin to the present Polish government, Chou En-lai evidently feels that the primary purpose of his visit to Poland is to warn against divisive tendencies in the bloc. Peiping's 28 December statement indicated its belief that Poland is not close enough to the Soviet model in its domestic program, and not solidly enough aligned with the Kremlin in foreign affairs. Chou's airport speech asserts the urgency of frustrating "imperialist intrigues" to exploit current disputes in the bloc.

The Polish leaders have been disillusioned by recent Chinese statements favoring the USSR and critical of Yugoslavia. They are, however, eager to avoid any aggravation of differences with the USSR and probably view Chou's visit as an opportunity to smooth over these differences while adhering at the same time to their basic position of independence.

Prior to his departure for Poland, Chou subscribed to a joint declaration with Soviet and Hungarian leaders in Moscow affirming the necessity for "cutting short with utmost resolution" all efforts to weaken bloc unity. Hungarian premier Kadar apparently had been summoned to Moscow for this purpose.

[Redacted]

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V 6. GOMULKA'S POLICY STATEMENT

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In an effort to minimize the ideological conflict with the USSR, and the day before Chou En-lai's arrival in Warsaw, Polish party first secretary Gomulka emphasized in a statement on 10 January

that socialism cannot be something unique in each country although there may be different ways to go about achieving it. He said that there are certain basic conditions which are common to all socialist countries, and added that introduction of the Yugoslav system would be as wrong for Poland as slavish limitation of the Soviet model.

Other highlights of Gomulka's policy statement, in the form of answers to a long series of questions posed by workers, include provisions for greater power for the Sejm (parliament) in controlling state affairs and special economic concessions in the Oder-Neisse territories. The Sejm, according to Gomulka, will be endowed with "real authority" in state affairs, mainly by the re-establishment of the Supreme Control Chamber which was abolished in 1952; this would restore to the Sejm the function of "watchdog" over implementation of economic plans, previously exercised by the recently abolished Ministry of State Control.

In order to encourage resettlement in the Oder-Neisse territories, substantial economic concessions are to be granted that area, including large reductions in compulsory agricultural deliveries, land leases on favorable terms, and financial aid for resettlement.

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8. SITUATION IN INDONESIA

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A public statement by a top leader of the National Party, which heads the Indonesian cabinet, that Communist support "will naturally be accepted" is indicative of his party's strong determination to keep the Ali government in power, despite the recent withdrawal of the Masjumi. The spokesman also stated that although the Nationalists would not invite the Communist Party into the cabinet, they would consider such participation if requested by the Communists.

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